

**SAMPLE SUBSTANCE ABUSE COUNCIL**

**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2004**

Office of  
**AUDITOR  
OF STATE**

State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA**  
**Auditor of State**





**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
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State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 125.55 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of licensed substance abuse programs should be performed in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Chapter 11.6 of the Code of Iowa requires a review of internal control and testing of transactions for compliance.

This sample report has been prepared in conformity with U.S. generally accepted accounting principles as set forth in the AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations. The format shows the financial statements, supplemental information and reports on compliance and internal control which are necessary to meet the requirements of this office. The detail presented in the financial statements and supplemental information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the entity feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

Depreciation expense has been recognized in these financial statements as recommended by the Industry Audit Guide and as required by Financial Accounting Standards Board Statement Number 93.

Entities with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Any questions concerning Single Audit requirements should be directed to the entity's cognizant or oversight agency.

In accordance with OMB Circular A-133, one copy of the reporting package and Data Collection Form shall be submitted within 30 days after issuance of the audit report to a central clearinghouse. The Data Collection Form is available by calling 1-800-253-0696 (Form number SF-SAC) or on the Federal Audit Clearinghouse (FAC) website at <http://harvester.census.gov/sac>. Auditees are encouraged to use the on-line Internet submission option available on the FAC website. Submission of the on-line Internet Form SF-SAC will require the user to submit a hard copy of the final form with the auditee and auditor signatures. Additional copies of the reporting package or notifications of audit should be submitted to the central clearinghouse or to grantor pass-through entities in accordance with the filing requirements of the Circular.

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The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. Reporting packages should be submitted to:

Federal Audit Clearinghouse  
Bureau of the Census  
PO Box 5000  
Jeffersonville, IN 47199-5000

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

Reports, including the management letter(s) if issued separately, are to be filed with our office within nine months following the end of the fiscal year subject to audit. However, reports should be filed with this office upon release to the entity. The per diem audit billing (including fee, expenses and hours) should be submitted with the reports filed with our office.

Beginning with audit reports issued for the year ending June 30, 2004, we will be providing internet access to reports issued by CPA firms to accompany our own reports which are already accessible through the internet. To allow this, you should submit an electronic copy of each FY2004 audit report, in PDF format, to our office in addition to the two paper copies submitted. The PDF files should be e-mailed to [submitreports@auditor.state.ia.us](mailto:submitreports@auditor.state.ia.us).

In accordance with Chapter 125.55 of the Code of Iowa, a copy of the report should also be filed with the Director of the Iowa Department of Public Health, Division of Health Promotion, Prevention and Addictive Behaviors.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the entity for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the entity and a copy should be sent to this office with two copies of the audit report sent by the CPA firm. We will make a copy of the audit report and news release available to the news media in this office.

In accordance with Chapter 11 of the Code of Iowa, the office is to be notified immediately regarding any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments and related entities. Together, we are able to provide a significant benefit to all taxpayers in the state.

DAVID A. VAUDT, CPA  
Auditor of State

## **Sample Substance Abuse Council**

### **Outline of Major Changes**

1. Changed threshold for a Single Audit from \$300,000 to \$500,000.
2. An electronic copy of the audit report, in PDF format, is to be submitted in addition to the required paper copies.

### **Additional Notes**

1. **Samples A** and **B**, attached, include illustrations of an Independent Auditor's Report and an Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting for an entity when a Single Audit is not required.
2. Also attached is a sample Corrective Action Plan for Federal Audit Findings (See **Sample C**) and a sample Summary Schedule of Prior Federal Audit Findings (See **Sample D**). These are provided for illustrative purposes only and are not required to be bound in the regular audit or filed with our office.
3. The attached sample Corrective Action Plan refers the user to the entity's response to the auditor's comment for the detailed corrective action planned. If the entity's response to the auditor's comment does not include the details of their planned corrective action, this information should be included in the Corrective Action Plan itself.



Independent Auditor's Report

To the Officials of Sample Entity:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of Sample Entity as of and for the year ended June 30, 2004. These financial statements are the responsibility of Sample Entity's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Entity at June 30, 2004, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2004 on our consideration of Sample Entity's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in Schedules 1 through \_\_\_ is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

September 20, 2004

DAVID A. VAUDT, CPA  
Auditor of State

Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

To the Officials of Sample Entity:

We have audited the financial statements of Sample Entity as of and for the year ended June 30, 2004, and have issued our report thereon dated September 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sample Entity's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Entity's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the Entity. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item (1).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sample Entity's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Sample Entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

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## **Additional Notes (continued)**

### **Sample B**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness. Prior year reportable conditions have been resolved except for item (A).

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Sample Entity and other parties to whom Sample Entity may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Entity during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 20, 2004

DAVID A. VAUDT, CPA  
Auditor of State

**Additional Notes (continued)****Sample C**

Sample Entity

## Corrective Action Plan for Federal Audit Findings

Year Ended June 30, 2004

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
III-A-04	Unsupported Expenditures	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Tom Claim, Sample Entity Administrator, (515) YYY-XXXX	Documentation to support expenditures will be maintained effective immediately. The questioned costs were returned to the Iowa Department of Economic Development on October 11, 2004.
III-B-04	Segregation of Duties over Federal Revenues	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Julie Ledger, Sample Entity Treasurer, (515) YYY-XXXX	October 29, 2004
III-C-04	Financial Reporting	As noted in our response to the auditor's comment, we have implemented an independent review process which requires review by the Sample Entity Program Director, effective immediately. In addition, beginning with the December, 2004 quarterly report, we will submit federal financial reports within the required time frame.	Joe Smith, Program Director, (515) YYY-XXXX	Review procedures have been implemented.  Timely report filing will begin with the quarter ending December, 2004.

**Additional Notes (continued)****Sample D**

Sample Entity

## Summary Schedule of Prior Federal Audit Findings

Year ended June 30, 2004

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation
III-C-01 III-B-02 III-B-03	Minority Business Enterprise/ Women Business Enterprise (MBE/WBE)	No longer valid; does not warrant further action.	Over two years have passed since the reporting of this audit finding. The Grantor Agency has not followed up on this finding nor has a management decision been issued on their part.
III-A-02 III-A-03	Segregation of Duties over Federal Revenues	Not corrected.	Plan to segregate duties for custody, recordkeeping and reconciling among Sample Entity staff.
III-C-02 III-C-03	Fixed Assets	Corrective action taken.	
III-D-03	Financial Reporting	Partially corrected.	Review procedures have been implemented. Timely report filing will begin with the quarter ending December, 2004.





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**NEWS RELEASE**

Contact:

FOR RELEASE \_\_\_\_\_

Auditor of State David A. Vaudt today released an audit report on Sample Substance Abuse Council, Anywhere, Iowa.

The Council had public support and revenues of \$\_\_\_\_\_ for the year ended June 30, 200\_, which was a(n) \_\_\_\_\_ percent increase (decrease) from the prior year. Public support included \$\_\_\_\_\_ from the Iowa Department of Public Health and \$\_\_\_\_\_ from \_\_\_\_\_ County.

Expenses for the Council's operations totaled \$\_\_\_\_\_, a(n) \_\_\_\_\_ percent increase (decrease) from the prior year. Expenses included \$\_\_\_\_\_ for program services and \$\_\_\_\_\_ for support services.

The significant increase (decrease) in revenues and expenses is due primarily to \_\_\_\_\_.

A copy of the audit report is available for review in the Office of Auditor of State and the Sample Substance Abuse Council office.

# # #



**SAMPLE SUBSTANCE ABUSE COUNCIL**

**INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2004**

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## **Sample Substance Abuse Council**

### **Board of Directors**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Smith	President	Jan 2005
Jill Jones	Vice-President	Jan 2006
Joe Brown	Secretary	Jan 2006
Mary Moore	Treasurer	Jan 2007
George Martin	Member	Jan 2005
Carol Long	Member	Jan 2005
Dennis Jones	Member	Jan 2006
Lester Hays	Member	Jan 2006
Sue Miller	Member	Jan 2007
Roger Warren	Executive Director	Indefinite

**Sample Substance Abuse Council**



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Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Board of Directors of  
Sample Substance Abuse Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of Sample Substance Abuse Council, Anywhere, Iowa, as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Substance Abuse Council at June 30, 2004 and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 20, 2004 on our consideration of Sample Substance Abuse Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

September 20, 2004

DAVID A. VAUDT, CPA  
Auditor of State

**Sample Substance Abuse Council**

## **Financial Statements**

June 30, 2004

See notes to financial statements.

Land, Building and Equipment	
Fund	Total
-	107,934
-	12,262
-	159,923
-	19,158
-	50
-	-
764,400	764,400
764,400	1,063,727

-	33,101
-	55,551
-	40,500
485,891	485,891
159,923	159,923
645,814	774,966

-	30,000
118,586	257,900
118,586	287,900
-	861
118,586	288,761
764,400	1,063,727

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Sample Substance Abuse Council

Statement of Activities

Year ended June 30, 2004

	<u>Current Fund</u>	
	<u>Unrestricted</u>	<u>Permanently Restricted</u>
Public support and revenues:		
Public support:		
Iowa Department of Public Health:		
Treatment program	\$ 591,851	-
Prevention program	61,243	-
Counties	227,538	-
Cities	10,500	-
Donations	2,589	-
United Way	10,009	-
	<u>903,730</u>	<u>-</u>
Revenues:		
Resident Recovery Program:		
Veterans Administration resident fees	13,685	-
Other resident fees	71,264	-
Client fees	96,031	-
Interest on investments	2,870	43
Miscellaneous	28,324	-
	<u>212,174</u>	<u>43</u>
Total public support and revenues	<u>1,115,904</u>	<u>43</u>
Expenses:		
Program services	896,132	-
Support services	158,418	-
Total expenses	<u>1,054,550</u>	<u>-</u>
Change in net assets from operations	61,354	43
Other changes:		
Property and equipment acquisitions	(21,666)	-
Net assets beginning of year	<u>129,626</u>	<u>818</u>
Net assets end of year	<u>\$ 169,314</u>	<u>861</u>

See notes to financial statements.



Land, Building and Equipment Fund	Total
-	591,851
-	61,243
-	227,538
-	10,500
-	1,589
-	11,009
-	903,730
-	13,685
-	71,264
-	96,031
-	2,913
-	28,324
-	212,217
-	1,115,947
59,650	955,782
40,088	198,506
99,738	1,154,288
(99,738)	(38,341)
21,666	-
196,658	327,102
118,586	288,761

**Exhibit C**

## Sample Substance Abuse Council

## Statement of Functional Expenses

Year ended June 30, 2004

	Program Services	Support Services, Management and General	Total
Salaries	\$ 639,400	95,156	734,556
Benefits and taxes	103,064	15,033	118,097
	<u>742,464</u>	<u>110,189</u>	<u>852,653</u>
Rent	-	3,600	3,600
Groceries	37,525	-	37,525
Supplies and printing	11,949	6,941	18,890
Repair and maintenance	13,189	1,401	14,590
Insurance	26,460	2,810	29,270
Postage	595	3,314	3,909
Professional fees	-	5,075	5,075
Dues and subscriptions	-	1,907	1,907
Professional supplies	4,586	-	4,586
Travel and conferences	9,189	1,505	10,694
Contractual services	12,522	2,264	14,786
Utilities and telephone	27,865	2,959	30,824
Advertising	-	4,355	4,355
Equipment rent and repair	3,328	10,636	13,964
Interest	39,079	26,053	65,132
Staff development	3,079	136	3,215
Medical services and prescriptions	2,300	-	2,300
Miscellaneous	-	605	605
	<u>191,666</u>	<u>73,561</u>	<u>265,227</u>
Total expenses before depreciation	934,130	183,750	1,117,880
Depreciation	<u>21,652</u>	<u>14,756</u>	<u>36,408</u>
Total expenses	<u>\$ 955,782</u>	<u>198,506</u>	<u>1,154,288</u>

See notes to financial statements.

## Sample Substance Abuse Council

## Statement of Cash Flows

Year Ended June 30, 2004

	<u>Current Fund - Unrestricted</u>
Cash flows from operating activities:	
Cash received from State Agency	\$ 655,594
Cash received from Counties	227,538
Cash received from Cities	10,500
Donations received	12,598
Cash received from resident and client fees	179,930
Interest received	2,870
Other receipts	28,324
Cash paid to employees and suppliers	<u>(1,058,850)</u>
Net cash provided by operating activities	58,504
Cash and cash equivalents beginning of year	<u>49,430</u>
Cash and cash equivalents end of year	<u>\$ 107,934</u>
<b>Reconciliation of change in net assets to net cash provided by operating activities:</b>	
Change in net assets	\$ 61,354
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Decrease in due from other funds	2,500
(Increase) in accounts receivable	(1,050)
(Increase) in prepaid expenses	(158)
(Decrease) in accounts payable	(1,057)
(Decrease) in salaries payable	<u>(3,085)</u>
Net cash provided by operating activities	<u>\$ 58,504</u>
See notes to financial statements.	

Sample Substance Abuse Council

Notes to Financial Statements

June 30, 2004

**(1) Summary of Significant Accounting Policies**

A. Reporting Entity

Sample Substance Abuse Council is a non-profit corporation organized to provide education and group counseling for substance abusers and their families and to provide residential care for adult substance abusers. Services are provided primarily to residents of Sample County.

The Council is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law which provide tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes.

The Council's financial statements are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Financial Accounting Standards Board for non-profit corporations.

B. Fund Accounting

The accounts of the Council are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are summarized as follows in the financial statements:

Current Fund - The current fund accounts for all resources over which the Council has discretionary control to use in carrying on the operations of the organization in accordance with the limitations of its charter and bylaws except for amounts invested in land, buildings and equipment that may be accounted for in a separate fund.

The Council's Board may designate portions of the current fund for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets. The Council maintains separate accounts for any designations within the current fund and segregates the designated and undesignated portions of the fund within the net assets section of the balance sheet.

The current fund also accounts for all resources restricted by outside sources which can only be utilized in accordance with the purposes established by the sources of the funds.

Land, Building and Equipment Fund - The land, building and equipment fund is used to accumulate the net investment in fixed assets and to account for the unexpended resources contributed specifically for the purpose of acquiring or replacing land, buildings or equipment for use in the operations of the organization. Mortgages or other liabilities relating to these assets are also included in this fund.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Purchases of property and equipment providing future benefits are directly charged against the current fund balance and capitalized in the land, building and equipment fund.

D. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Council and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Council. Generally, the donors of these assets permit the Council to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

E. Assets and Liabilities

The following accounting policies are followed in preparing the statement of financial position:

Cash and Cash Equivalents - The Council considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Due from and Due to Other Funds - During the course of its operations, the Council has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded.

Property and Equipment - Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 40 years.

F. Public Support - United Way

Support from United Way represents amounts actually received or due, net of related fund-raising expenses. Accordingly, such related fund-raising expenses are not included in these statements.

G. Contributed Office Space

The fair value of the free use of office space is treated as a donation and an expense.

H. Total Column

The total column on the statement of financial position and the statement of activities is presented only to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**(2) Property and Equipment**

A summary of property and equipment follows:

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 93,049
Buildings	682,314
Furniture and fixtures	<u>84,697</u>
Total cost	860,057
Less accumulated depreciation	<u>(95,657)</u>
Net	<u>\$ 764,400</u>

**(3) Note and Mortgage Payable**

Current Fund – The Council has borrowed \$40,500 on a \$75,000 unsecured line of credit at Anywhere State Bank. Interest at 7.5% per year accrues on the unpaid balance, which is due October 15, 2004.

Land, Building and Equipment Fund – Monthly installments of \$7,897, including 7% interest on the unpaid balance, are due on the mortgage payable with a final due date of July 2013. The mortgage is collateralized by land and a building with a depreciated cost of \$623,722 at June 30, 2004. Details of the mortgage payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 38,532	56,233	94,765
2006	43,419	51,346	94,765
2007	48,925	45,840	94,765
2008	55,130	39,634	94,764
2009	62,122	32,643	94,765
2010-2013	237,763	46,534	284,297
Total	<u>\$ 485,891</u>	<u>272,230</u>	<u>758,121</u>

**(4) Interest Cost**

During the current year, no interest costs were capitalized since there were no qualifying assets. Total interest cost incurred and charged to expense for the year ended June 30, 2004 totaled \$65,132.

**(5) In-Kind Contributions**

The Council received donated office space in the Sample County Courthouse. The in-kind revenue and the corresponding expense is recognized in these financial statements at the estimated fair rental value of \$150 a month.

A number of volunteers donate a significant amount of their time in various program areas, advisory boards and committees. No amounts have been reflected in the statements for these donated services because no objective basis is available to measure the value of such services.

**(6) Retirement Plan**

The Council maintains a defined contribution retirement plan which is administered by XYZ Insurance Company. The plan is available to all employees who have completed one year of service.

Under the terms of the plan, the Council contributes an amount equal to 4% of the annual salary for each employee participating in the plan. Additionally, each plan participant must contribute 2% of their annual salary and all such payments are accumulated and invested for individual participants of the plan. Amounts credited to individual participants are 100% vested immediately. The accumulated monies are paid upon a participant's retirement or termination.

For the year ended June 30, 2004, the Council's required and actual contributions amounted to \$28,062, which is 4% of its current year covered payroll of \$701,550. Employees' required and actual contributions amounted to \$14,031, which is 2% of the Council's current covered payroll. The Council's total current year payroll for all employees was \$734,556.

**(7) Risk Management**

Sample Substance Abuse Council is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Council assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

### **Supplemental Information**



Sample Substance Abuse Council  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Health and Human Services:			
Iowa Department of			
Public Health:			
Block Grants for Prevention and			
Treatment of Substance Abuse:			
Comprehensive Treatment	93.959	5883CT005	\$ 591,851
Comprehensive Prevention	93.959	5884CP049	<u>15,243</u>
Total			<u>\$ 610,094</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Sample Substance Abuse Council and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

To the Board of Directors of  
Sample Substance Abuse Council:

We have audited the financial statements of Sample Substance Abuse Council, Anywhere, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sample Substance Abuse Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Council's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Council. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sample Substance Abuse Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted an instance involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Sample Substance Abuse Council's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted is described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. Prior year reportable conditions have been resolved except for item II-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Sample Substance Abuse Council and other parties to whom the Council may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Substance Abuse Council during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 20, 2004

DAVID A. VAUDT, CPA  
Auditor of State



**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance

To the Board of Directors of  
Sample Substance Abuse Council:

Compliance

We have audited the compliance of Sample Substance Abuse Council with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The Council's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Council's management. Our responsibility is to express an opinion on the Council's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Council's compliance with those requirements.

In our opinion, Sample Substance Abuse Council complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Council is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Council's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted an instance involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Council's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Sample Substance Abuse Council and other parties to whom the Council may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

September 20, 2004

DAVID A. VAUDT, CPA  
Auditor of State

Sample Substance Abuse Council  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, which is considered to be a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, which is considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was Block Grants for Prevention and Treatment of Substance Abuse, CFDA Number 93.959.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Sample Substance Abuse Council did not qualify as a low-risk auditee.

Sample Substance Abuse Council  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-04 Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the Council's financial statements. We noted one individual has custody of receipts and performs all record-keeping and reconciling functions for the office, including those related to its federal program.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Council should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned – We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling functions currently performed by the individual will be separated and spread among various employees. We plan to implement these changes by November.

Conclusion – Response accepted.

Sample Substance Abuse Council  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

**CFDA Number 93.959: Block Grants for Prevention and Treatment of Substance Abuse**  
**Pass-through Agency Numbers: 5883CT005 and 5884CPO49**  
**Federal Award Year: 2003**  
**U.S. Department of Health and Human Services**  
**Pass through the Iowa Department of Public Health**

III-A-04    Segregation of Duties over Federal Revenues – The Council office did not properly segregate custody, record-keeping and reconciling functions for revenues, including those related to its federal program. See item II-A-04.

**Part IV: Other Findings Related to Statutory Requirements and Other Matters:**

No matters were noted.



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Sample Substance Abuse Council

Staff

This audit was performed by:

John Q. Review, CPA, Manager  
Margo Setter, CPA, Senior Auditor  
Jerome Warning, CPA, Senior Auditor

Andrew E. Nielsen, CPA  
Deputy Auditor of State